Green Credits and Savings and Loan Groups

Our work

- Food Security and Nutrition
- Climate Adaptation and Resilience
- Biological Diversity in Agriculture
- Management of Natural Resources
- Green Credits and Savings and Loan Groups
- Women's Rights and Equality
- Strengthening Civil Society

Coffee farmer in Guatemala. Photo: Carlos Zaparolli

1.4 billion people lack bank accounts

76% of adults globally have access to a bank account. In countries in the global South, the proportion is 71%. Although this percentage is significantly higher than just a few years ago, it means that approximately 1.4 billion people do not have any bank account (World Bank, 2022). Poor and marginalised people often have low access to credit - especially vulnerable are women, youth, and people with disabilities.

Why is access to bank accounts and credit important?

When people do not have well-functioning savings schemes or access to credit, it becomes extremely difficult to invest in income-generating activities or meet basic needs during unforeseen circumstances. In desperate situations, one may be forced to sell assets or land. Some people may have access to credit, but it may be loans with very high interest rates and poor conditions that trap them in a debt spiral. This hinders the possibility of reducing poverty and malnutrition, ensuring healthcare, or sending children to school.

Food crops for sale in a market in Malawi. Photo: Julie Lunde Lillesæter

How does The Development Fund work to strengthen farmer's access to credits?

Green Credits

The Development Fund has an initiative called "green credits." By committing to implement one or more environmental measures on their plot of land or in the local community, farmers receive lower interest rates on their loans than in a regular bank. Environmental measures can include conserving soil, planting fruit trees, building dams, planting forests, or building terraces on hillsides to prevent soil erosion. It is the local farmers themselves, together with The Development

Fund's partners, who decide which environmental measures to implement. Local residents are the ones who know the local conditions best.

The money that programme participants borrow can be used, for example, to buy seeds, tools, or to raise livestock. The farmers repay the loan after harvest when they have sold their produce. In this way, small-scale farmers have access to credit with a low interest rate, while environmentally friendly measures are taken at the local level. It is sustainable development. When they repay the loan, it goes back to a revolving fund so that new farmers can access loans.

Forest conservation in Ethiopia. Photo: Harald Herland

Savings and Loan Groups

For many people in the areas where The Development Fund operates, alternative forms of savings and loan arrangements other than traditional banks may be a good solution. A savings and loan group (Village Savings and Loan Association - VSLA) is a scheme where members contribute deposits and manage loans themselves. This may be accompanied by seed capital provided by The Development Fund. Members can borrow from the group, for example, to invest in their production or start a business. When the loan with interest is repaid, the equity of the savings and loan group increases. In this way, the economic resilience of everyone in the group ideally increases over time, the capital grows, the group becomes self-sufficient and The Development Fund can exit. In addition, it can function as an insurance scheme with the group building up a "social fund" to help members meet unforeseen events such as illness, natural disasters, accidents, or similar.

There are many advantages to savings and loan groups. First and foremost, it provides access to credit to a group that would otherwise not have it. This can be important for making investments that contribute to strengthening household economies. For example, a small scale farmer participating in a savings and loan group may take out a loan to buy cows. As the cows generate returns and the loan is repaid, the farmer can continue to expand their operation. Furthermore, it is an advantage that the interest earned by participants goes back to the community instead of yielding returns for a commercial bank. Several also report that they have gained increased knowledge and confidence through participation in savings and loan groups. The groups are relatively easy to manage and have a high degree of transparency. This is an advantage for the members. Each year, there is an opportunity to terminate membership in the savings and loan group - then members receive the deposits they have contributed.

A village group meeting in Nepal. Photo: The Development Fund

Training and Knowledge Sharing

It is important to emphasise that savings and loan groups are not established without guidance. The Development Fund's partners provide programme participants with training in financial management, drafting of statutes, and practical implementation of meetings and savings and loan routines. They then receive guidance over time.

However, savings and loan groups are never controlled by The Development Fund or our partners. To ensure viable and democratically rooted groups, it is important that the participants themselves are responsible for the management of the group. This empowers and holds members accountable, and helps ensure that savings and loan groups can function over time.

Would you like to support The Development Fund's work?

- Here you can read about how you can get involved in our work against hunger and injustice

References:

The World Bank. (2022). COVID-19 Boosted the Adoption of Digital Financial Services. Retrieved from: https://www.worldbank.org/en/news/feature/2022/07/21/covid-19-boosted-the-adoption-of-digital-financial-services